



CITY OF SAN ANTONIO

INTERNAL AUDIT DEPARTMENT

Audit of Metropolitan Partnership for Energy
2005 and 2006 Projected Budgets

Project No. AU05-029

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Background

The Metropolitan Partnership for Energy (MPE) is a non-profit organization founded in 2002. The mission is to improve San Antonio's energy efficiency by providing energy leadership, expertise and education. The MPE was created following the passage of Texas Senate Bill 5 – the Texas Emissions Reduction Act. This bill requires that political subdivisions in 38 affected counties, including Bexar County, to reduce energy consumption by 5 percent per year or 25 percent for five years. The bill also requires compliance with the latest energy efficient building codes for residential and commercial construction.

MPE was created through a collaboration of the City of San Antonio, City Public Service (CPS) Energy, Bexar County, San Antonio Water System, Alamo Area Council of Governments, VIA Metropolitan Transit, Greater Bexar County Council of Cities, and Solar San Antonio. MPE helps its partners develop and implement energy and emissions reduction policies and public awareness programs. Specific areas of interest include: energy planning, renewable energy use, adoption of resource efficient building standards, reduction of urban heat islands, environmental-friendly purchasing, and alternatives to single-occupancy vehicle use. MPE also monitors the state legislature, following energy-related bills and making recommendations as appropriate.

Objective and Scope

Initially the objective of the audit was to determine the appropriateness and reasonableness of the 2005 and 2006 Projected Budgets for MPE. During the review, the scope of the audit was expanded to include the performance of a trend analysis of prior years' financial statements and verification of MPE's compliance with 2004 contract deliverables.

Criteria

This review was based upon terms of the 2004 contract with the City and applicable laws. The review was performed in compliance with generally accepted government auditing standards (GAGAS) issued by the U.S. Government Accountability Office (GAO) and other criteria to conform with the Institute of Internal Auditors' "International Standards for the Professional Practice of Internal Auditing."

Government Auditing Standards requires a peer review of auditing practices at least once every three years by reviewers independent of the audit organization. The City Internal Audit Department (CIAD) had its last external peer review in July 2001. CIAD is scheduled for the next peer review in the summer 2005.

Methodology

The audit methodology consisted of the following:

- Analyze the 2005 and 2006 Proposed Budgets,
- Perform a trend analysis of proposed budgets to prior year financial statements, and
- Verify MPE's compliance with 2004 contract deliverables.

Work for this project began in July 2005 and ended in August 2005.

Conclusions

Based upon the work performed for this review, the audit team developed the following conclusions:

- The City Council should reevaluate the \$100,000 funding request for calendar year 2005 since it appears that MPE's available cash is adequate to cover estimated operating expenses.
- The City Council should consider funding for 2006 with requirements to improve MPE's management and internal controls.
- COSA's Environmental Services Department should have managed the contract for 2004 in a timely manner. An appropriate review of MPE's 2005 and 2006 Projected Budgets would have identified a mathematical error.
- The audit team identified issues relating to MPE's financial statement reporting; timely submission of the 2005 budget; mathematical errors in the presented budget; and plan for the available cash reserves.

Detailed Observations, Recommendations, and Responses

City of San Antonio

1. Contract Management Improvements Needed by the Environmental Services Department

Observation

The 2004 contract between the City and MPE designates COSA's Environmental Services Department (ESD) to facilitate the evaluation of MPE's performance in assisting the City's progress toward energy conservation in comportment with statutory or regulatory energy conservation obligations. During the review of the department's contract management, the following was noted:

2004 Contract Requirements/Deliverables

- ESD did not perform a contemporaneous review of MPE's performance of the 2004 contract deliverables. A Performance Review was completed in March 2005. Although the report noted lack of several contract deliverables, it did not include expected completion dates for these deliverables. As of July 2005, there is no indication that a follow-up has been performed by ESD.

2005 and 2006 Projected Budgets

- In June 2005, the Director of Environmental Services was prepared to make a recommendation to the Mayor and City Council for funding MPE in the amount of \$100,000 for 2005. It was delayed based on the audit team's review of MPE's financial statements. Funding requests should be submitted before the year of need to allow for proper budgetary consideration.
- It appears that MPE's Proposed Budgets for 2005 and 2006 were not properly reviewed by ESD due to the mathematical error noted in the revenue section of the report. As a result, the amounts in the "Total Funds Available this Year" and the "Funds Remaining at End of the Year" are overstated by \$100,500 and \$34,000, respectively for 2005 and 2006.

Total Funds Available This Year			Funds Remaining at End of the Year		
	2005	2006		2005	2006
Corrected	\$ 727,416	\$ 846,605	Corrected	\$ 420,610	\$ 428,792
Uncorrected	827,916	880,605	Uncorrected	521,110	462,792
Difference	<u>\$ (100,500)</u>	<u>\$ (34,000)</u>	Difference	<u>\$ (100,500)</u>	<u>\$ (34,000)</u>

Risk

The City of San Antonio has provided \$300,000 in funding to MPE over the past three years; however, the contract management by ESD has been limited. Without a timely review and report on MPE's performance by the department, the City's progress toward expected energy conservation goals may not be realized.

Recommendations

ESD should submit a report to City Council regarding MPE's performance of the 2004 contract deliverables with expected completion dates.

The City Council should assess whether the \$100,000 funding request for calendar year 2005 is required. MPE appears to have adequate operating cash to cover proposed expenses for calendar year 2005.

Council should also consider funding for 2006 after the presentation by the ESD on the 2004 contract results. This would include a briefing about the expected results for 2005, and the program services to be funded in the 2006 contract proposal.

Management's Response, dated August 29, 2005

- The ESD communicated with the MPE on a continuous basis through phone, email, and meetings regarding the status of deliverables. It was not required by the contract or appropriate to conduct a performance review of MPE until later in the contract term, in order to allow MPE time to submit the deliverables. A performance review was not conducted until after the end of the contract period.

The 2004 Contract was executed June 14, 2004, and was valid for the period of January 1, 2004 through December 31, 2004. Per section 2.2 of the contract documents, the MPE should have conducted a performance review at the conclusion of 12 months. The ESD requested a performance review to be conducted by MPE on January 2005. After multiple requests for this internal performance review, the ESD decided to perform their own evaluation.

To date, all required deliverables have been received, with the exception of some minor items. These minor deliverables that have not been received include:

- Greenhouse gas inventory software
- Greenhouse gas staff training
- Research to support emissions credits
- Environmental directory funding
- Assist COSA with grants

The ESD considers the above-referenced deliverables to be minor and not necessary to the primary goal of energy efficiency. After further consideration of the benefit expected from the above-referenced and non-received deliverables, the ESD has decided to cancel these deliverables.

- The MPE funding cycle was originally established as January 1 to December 31, with full funding provided at the execution of the contract. The ESD's preferred method of contract administration provides payment for deliverables upon their receipt. Additionally, we agree that the contract term should coincide with the City's fiscal year for the reasons described. However, since this project was originally set up in this manner, the ESD has simply continued to execute it in its original form.

The ESD did not bring the funding request to City Council earlier in the calendar year because the MPE had not submitted requested deliverables and other required contract services to the ESD in a timely manner. Should the City Council decide to continue funding of the MPE, the ESD will mandate MPE's funding request to coincide with the City's funding cycle.

- The ESD, along with the MPE Board of Directors (CPS Energy, Bexar County, SAWS, AACOG and other local governmental agencies), reviewed the proposed budgets to identify expenditures, deliverables, and activities at the quarterly MPE meetings. This mathematical error was not identified by any member of MPE staff, the City, or MPE Board of Directors. The ESD assumed that the data provided by the MPE was correct and accurate. While, the ESD focused its primary efforts on the contract's scope of services, we agree that the ESD could have reviewed MPE's records in more detail to identify this mathematical error.

- The MPE responds to a Board of Directors made of local elected officials. This Board's direction is not necessarily the same as the City's energy conservation goals. There is a request from the MPE to be reassigned under the Alamo Area Council of Governments (AACOG). The ESD considers this proposal to be advantageous to the current organization because the AACOG is a viable, well managed organization with similar goals and objectives as the City. However, until this realignment is complete and/or a more descriptive scope of services can be evaluated, the ESD cannot make a judgment regarding the MPE's ability to assist the City reach its energy efficiency goals.
- If requested, the ESD will submit a report to City Council regarding MPE's performance of the 2004 contract deliverables.
- The ESD agrees that the City Council should reassess MPE's funding request for 2005.

Metropolitan Partnership for Energy

2. MPE's Financial Reporting Issues

Observation

The Metropolitan Partnership for Energy (MPE) was contracted by the City in 2004 to provide assistance with Texas Senate Bill 5 – the Texas Emissions Reduction Act. The audit team reviewed the 2005 and 2006 Projected Budgets, 2002 through 2004 financial statements, and the corresponding 990 tax returns. The following issues were noted:

Timeliness and Accuracy of MPE's 2005 and 2006 Projected Budgets:

- MPE's request for 2005 funding should have been submitted in summer 2004. This would have allowed City Council the time to properly consider the 2005 Projected Budget prior to January 1, 2005. MPE's funding request for 2006 should currently be evaluated.
- The 2005 and 2006 Projected Budgets should be based on accurate and reliable information to assist in the decision making process. The audit team determined that the report contained a mathematical error in the revenue amount. As a result, the "Total Funds Available this Year" and the "Funds Remaining at End of the Year" amounts were overstated by \$100,500 and \$34,000, respectively for 2005 and 2006. (See table on page 3)
- In addition, the beginning cash balance for 2005 was misstated by \$76,519 based on a comparison with the ending cash balance reported in the 2004 tax return (Form 990). The ending cash balance in the 990 tax return was \$374,180, as compared to \$297,661 reported in the 2005 Projected Budget.
- The 2005 and 2006 Projected Budgets contains unusual trends in expenses as compared to prior year financial statements. (See notes on Attachment 2)

Available Cash on Hand:

Although MPE is requesting \$100,000 from COSA to help fund their 2005 budget, it currently has the available cash to fund the \$306,807 in estimated expenses for 2005. The 2004 tax return (Form 990) reflects that \$374,180 is available in cash for 2005. (See Attachment 1, note 7)

Accounting and Financial Reporting Concerns:

The following issues were noted regarding MPE's financial statements:

- The 2003 and 2004 financial statements reflect expenses for the Energy Symposium and Build SA Green programs. These expenses are reported as total program expenses rather than by standard classification of expense (i.e., salaries, payroll taxes, office supplies, travel, etc.). (See Attachment 2, note 3)
- In 2003, MPE received \$300,000 from local agencies (i.e., \$150,000 from CPS Energy, \$100,000 from City of San Antonio and \$50,000 from Bexar County). However, of the \$300,000 funding received in 2003, CPS Energy's \$150,000 funding was not deposited and recorded until January 2004. Inadvertently, the 2003 financial statements reflect that \$150,000 was received from CPS Energy instead of \$100,000 from the City of San Antonio and \$50,000 from Bexar County.
- The audit team determined that MPE inadvertently did not report In-kind Revenue in 2004 for a donated \$18,000 heating, ventilation and air conditioning (HVAC) system as required by Statement of Financial Accounting Standards (SFAS) No.116. (See Attachment 2, note 1)

Risk

MPE's financial reports may be presented that include inaccurate financial information; and accordingly, inappropriate decisions could be made by City Council based on these reports.

Recommendation

As previously recommended, City Council should reevaluate the \$100,000 funding request for calendar year 2005 and consider funding for 2006 once adequate improvements are made by MPE.

Management's Responses Received in August 2005

The following are MPE's responses:

- In early August 2005, the Board of Directors assigned an Acting Executive Director to replace the individual who resigned in July 2005.
- The Acting Executive Director has begun changes in the organization's direction. This includes a formal independent external audit that will be performed shortly on MPE's financial statements.
- The Acting Executive Director will be making other necessary administrative changes pending the external audit.
- MPE has provided financial information to assist in clarifying issues that were identified by the audit team.